

Response to Paragraph 27

**Explanation of Historical Development of
Projected BFP Revenue Requirement
1991 through 1997**

1991 through 1995 Methodology

The methodology used during this period was identical to the process utilized prior to Sprint's election of price cap regulation. Test year (budgeted) Part 32 amounts were processed through Sprint's Part 36 and 69 systems to produce a "budgeted" BFP revenue requirement. This process used monthly budgeted amounts to satisfy the test year (July to June) requirement. Allocation factors utilized were adjusted for exogenous changes such as the SPF and DEM reductions. The resulting revenue requirement was then used in the End User Common Line (EUCL) rate development process. Prior to price cap regulation, such data was contained in the TRP as COS-1P forms. Sprint continued this methodology as long as monthly data was available to prepare test year revenue requirements.

However, during 1995, the budgeting process was changed. Monthly data was no longer prepared for subsequent years.

1996 and 1997 Methodology

For the last 2 annual tariff filings, the BFP revenue requirement was based on a historical trend of previous years' data. Since this process was performed at the individual Sprint level, some companies chose to trend previous years' actual data, while others chose to trend previous years' filing data. (See Exhibit 2)

As shown in Exhibit 1, at an aggregated Sprint level, the 1997 tariff filing forecast is within an acceptable range of a straight line forecast of historical calendar year actuals, 0.46%; and also within 0.40% of a tariff year straight line forecast.

Comparison of Actual to Filed Monthly BFP Revenue Requirement Per Line

(Response to Paragraph 32, 34)

Sprint Local Telephone Division

	TARIFF PERIOD						
	<u>7/91-6/92</u>	<u>7/92-6/93</u>	<u>7/93-6/94</u>	<u>7/94-6/95</u>	<u>7/95-6/96</u>	<u>7/96-6/97</u>	<u>7/97-6/98</u>
Actual							
Monthly BFP Cost / Line	\$ 5.97	\$ 6.16	\$ 6.53	\$ 6.75	\$ 6.47	\$ 6.39	
Annual BFP Cost / Line	\$ 71.58	\$ 73.97	\$ 78.36	\$ 81.01	\$ 77.65	\$ 76.65	
BFP Revenue Requirement	394,134,234	424,537,294	472,238,650	512,230,349	517,572,428	536,793,470	
Access Lines	5,506,101	5,739,129	6,026,792	6,322,710	6,665,544	7,003,530	
Access Line Growth Rate		4.23%	5.01%	4.91%	5.42%	5.07%	
Filed							
Monthly BFP Cost / Line	\$ 6.15	\$ 5.90	\$ 6.31	\$ 6.28	\$ 6.19	\$ 6.18	\$ 6.41
Annual BFP Cost / Line	\$ 73.76	\$ 70.79	\$ 75.67	\$ 75.33	\$ 74.26	\$ 74.14	\$ 76.94
BFP Revenue Requirement	399,974,600	404,381,649	449,691,309	468,438,748	485,200,490	509,550,951	566,859,770
Access Lines	5,422,947	5,712,560	5,942,450	6,218,741	6,533,404	6,872,898	7,367,130
Access Line Growth Rate		5.34%	4.02%	4.65%	5.06%	5.20%	7.19%

The forecast of 7/97-6/98 access lines includes Public Pay Phone lines not included in historical filings or actual. See exhibit 6 for detail.

Although the actual cost and access lines exceeded forecast for a number of years, the \$6.00 cap continued to control the End User rate therefore the full Price Cap benefit was flowed through to the Carrier Common Line rates. However, this analysis supports Sprint's belief that BFP historical costs should be acceptable for EUCL rate development in lieu of any forecast method.

Calculation of GSF Impact on 1st Half of 1993

Exhibit 9

(Response to Appendix B, GSF Adjustment)

<u>Sprint Local Telephone Division</u>		W/O GSF	With GSF	
		Change	Change	
<u>ARMIS 43-01 Reference</u>	<u>Calculations</u>	<u>1/93-6/93</u>	<u>1/93-6/93</u>	<u>Difference</u>
FIT Rate		0.350000	0.350000	-
SIT Rate		0.053930	0.053928	(0)
GRT Rate		0.000485	0.000495	0
1040 Miscellaneous		1,586,237	1,903,235	316,998
1060 Uncollectibles		398,952	378,100	(20,851)
1190 Total Operating Expenses		152,928,688	170,599,943	17,671,255
1340 AFUDC		-	-	-
1420 Other State and Local		7,551,257	8,140,224	588,967
1510 Fixed Charges		10,990,382	11,757,205	766,822
1520a IRS Income Adjustment-FIT		996,310	1,065,670	69,360
1520b IRS Income Adjustment-SIT		(3,205,297)	(3,431,224)	(225,927)
1540 ITC Amortization		2,038,950	2,172,457	133,507
1910 Average Net Investment		733,130,018	788,393,631	55,263,613
1915 Net Return	(1910 * .1125 * # Months / 12)	41,238,564	44,347,142	3,108,578
1950 Lifeline Assistance		-	-	-
1960 Universal Service Fund		-	-	-
4000 FIT Base	(1915 - 1340 - 1510 - 1520a - 1540)	27,212,921	29,351,810	2,138,889
1590 Federal Income Tax	(4000 * (FIT Rate/(1-FIT Rate)) - 1540)	12,614,161	13,632,364	1,018,203
4010 SIT Base	(4000 + 1590 + 1540 + 1520a - 1520b)	46,067,639	49,653,525	3,585,885
1410a State Taxes	(4010 * (SIT Rate/(1-SIT Rate))	2,626,037	2,830,330	204,292
4020 GRT Base	(1190+1420+1915-1340+1590+1410a)	216,958,706	239,550,002	22,591,296
1410b Local Income Taxes	(4020 * (GRT Rate/(1-GRT Rate))	105,212	118,666	13,454
4030 Revenue Requirement	(4020 + 1410b + 1060 - 1040)	215,876,634	238,143,534	22,266,900
1915 Net Return	(4030+1040-1060-1190+1340-1420-1410a-1410b-1590)	41,238,564	44,347,142	3,108,578
1920 Annualized Rate of Return	(1915 / 1910 * 1200 / # Months)	11.25	11.25	(0)

Note: 4000 Range used above for reference purposes only, not actually used in ARMIS 43-01.